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SUBJECT: SCENESETTER FOR THE OCTOBER 14-16 VISIT OF WHA P/DAS KELLY
TO MONTERREY

REF: A) MONTERREY 10; B) MONTERREY 194; C) MEXICO 2948; D) MONTERREY 433; AND E) MONTERREY 438

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1. (SBU) SUMMARY. The Consulate General of Monterrey enthusiastically welcomes your October 14-16 trip to Monterrey, the business hub of northern Mexico. We are certain that your participation in the International Conference on Philanthropy and the Non-Profit Sector will advance collaborative work on key areas such as education, economic development and poverty reduction. You will find that the state of Nuevo Leon is ahead of the curve in many economic and social indicators, but it still faces, as does the rest of Mexico, daunting security issues and lagging international economic competitiveness.
END SUMMARY.

NCCEP Conference

2. (SBU) The International Conference on Philanthropy and the Non-Profit Sector ('conference') seeks to promote partnerships among business, charitable foundations, civil society organizations and government, in the spirit of the July 2007 White House Conference on the Americas, hosted by President Bush in Washington DC. The Monterrey conference will bring together U.S. and Mexican business executives and civil society leaders to share best practices and form new alliances to make an impact in areas such as health, education, economic development, and the environment. To fund and coordinate projects in these fields throughout Mexico, participants will also be invited to establish an international donors' group. Although there are impressive NGOs in Mexico, the sector would be stronger if it were not hamstrung by burdensome regulations and (legitimate) donor concerns about transparency. The conference is co-sponsored by the Mexican chapter of the National Council for Community and Education Partnerships (NCCEP), a U.S.-based NGO, the Consulate General of Monterrey, the state of Nuevo Leon, and the federal Ministry of Public Education.

Northern Mexico Relatively Developed

3. (SBU) A recent survey found that Monterrey is the most economically competitive area of Mexico. Monterrey greatly exceeds Mexican national averages for per-capita income and Nuevo Leon continues to enjoy higher than average economic growth. Monterrey has benefited from its proximity to the United States, an excellent business climate, and a nucleus of industrialized Mexican firms (see reftel A). There are strong economic ties between the United States and Mexico, as Nuevo Leon continues to attract large flows of foreign direct investment (\$1.8 billion from the United States in 2007), and the local American Chamber of Commerce is vibrant, with over 300 members. Monterrey continues to focus on manufacturing, particularly bulky consumer items such as automobiles and

domestic appliances, but the region has sought to move into higher value goods and services as well. Nuevo Leon is also a leader in other fields, such as renewable energy. The state uses garbage from landfills to produce biogas, which is in turn used to power 40% of public lighting in the Monterrey municipal area. Although relatively poor by U.S. standards, Nuevo Leon has one of the highest levels of education in Mexico and one of the lowest percentages of poverty (24% of the population).

4 (SBU) President Calderon remains broadly popular, particularly in the state of Nuevo Leon. The PRI and PAN parties vie for dominance in northern Mexico, and the leftist PRD is very weak. In Nuevo Leon, Governor Jose Natividad Gonzalez Paras is in the last year of his six year term, and although he still has respectable approval ratings, he has had trouble bringing a number of his visionary plans to fruition. Governor Gonzalez Paras has built substantial infrastructure in Nuevo Leon, and an important remaining goal is to promote the Colombia railroad bridge to connect Monterrey to Texas through the narrow 13.5 km border that Nuevo Leon shares with Texas. Governor Gonzalez Paras has built a 'City of Knowledge' industrial park near the airport to promote innovation and high technology products. The City of Knowledge houses government agencies, local and international businesses and Mexican and three U.S. academic institutions.

15. (SBU) Nuevo Leon has been a leader in educational reform,
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one of the keys to generating more and better jobs for Mexican citizens. Mexico does a poor job educating its children, as they were dead last in the OECD in mathematics, reading and science in the latest test in 2006. However, Nuevo Leon's test scores have started to improve, showing gains in all three areas. The state has started to test prospective teachers and has provided classrooms with additional technology (reftel B). Nationally, President Calderon, his Secretary of Education Josefina Vazquez Mota and the head of the SNTE teachers union, Elba Esther Gordillo have agreed on an 'alliance for quality' to implement teacher testing on a national basis. However, the prospective teachers did very poorly on the first round of tests (two-thirds failed the test), and there are teachers strikes in several states protesting the teacher testing and claiming the right for teachers to inherit or sell their teaching positions (see reftel C).

16. (SBU) Although low by Mexican standards, an estimated 1 million people in Nuevo Leon live in poverty (24.6% of the population). Gonzalez Paras has implemented a Council for Social Development which has unpaid civil society advisors, and focuses on the elderly, the disabled, and mobile social services units. A recent survey of the poor found that 80% expressed general satisfaction with food, housing and public services. Charitable NGOs, including religious ones, also provide housing and services to the poor and disadvantaged (see reftel D). You will visit one such NGO, Back-to-Back Ministries/Casa Hogar Douglas, which provides housing and education to orphans and homeless children.

Troubles Loom over the Horizon: Economic and Security Issues

17. (SBU) Despite these accomplishments, Nuevo Leon has concerns with respect to its economic future. Mexico in general, and Monterrey in particular, are closely tied to the U.S. business cycle, and Monterrey could well be affected by reduced growth in the United States, which will lower demand for Mexican exports. To date Monterrey's economy remains strong, although it is likely to slow down if exports to the U.S. decline. Moreover, remittances from Mexicans living in the United States to their relatives in Mexico have already declined by 12% compared to a year ago. Mexico is also concerned that tighter global credit markets will further depress Mexican economic growth in the near

term. In the longer run, Nuevo Leon worries about the intensifying international competition in manufacturing production from China and other Asian countries and from lower cost CAFTA countries. Nuevo Leon hopes to move to high value added industries such as software design, aerospace, and biotechnology. However, these goals are still in the future, as the great majority of Nuevo Leon's economic might remains in manufacturing.

18. (SBU) As in all parts of Mexico, security overshadows all other issues in Nuevo Leon. In a recent poll by the leading newspaper El Norte, 68% of the public thought that security was the most important issue, and only 61% felt secure, a decline from 79% only three years ago. Previously Monterrey had been seen as a safe city, where drug cartels would operate but without disruptive violence. However, the rules have changed as the two main Mexican drug cartels, the Gulf Cartel and the Sinaloa Cartel, have fought for control of the lucrative drug shipping routes through Monterrey to the United States. Monterrey suffered a record 107 drug executions in 2007, although that number has declined in 2008 as drug violence has moved to Ciudad Juarez, Tijuana and other Mexican cities. However, kidnapping has risen in Nuevo Leon, along with concomitant public frustration at the inability of state and local police forces to crack down on crime. As in Mexico City and other cities, citizens in Nuevo Leon marched on August 30 demanding better public security. For their part, state and local authorities have caught several kidnapping gangs and responded with plans to provide more police training and clean up the police forces (see e.g. reftel E). However, even the government of Nuevo Leon admits that over 50% of the municipal police forces have been infiltrated by the narcotics cartels, so the fight for public security will be long and difficult.

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